



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

December 9, 2015

TO: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: John Naimo   
Auditor-Controller

SUBJECT: **HILLSIDES – A DEPARTMENT OF CHILDREN AND FAMILY  
SERVICES PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Hillside (Hillside or Agency), which included a sample of billings from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Children and Family Services (DCFS) contracts with Hillside to provide Wraparound Approach Services (Wraparound), Family Preservation (FP), Residential Based Services (RBS), and Group Home (GH) services.

The purpose of our review was to determine whether Hillside provided the services outlined in their County contracts and appropriately spent DCFS Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their County contracts and other applicable guidelines.

During FYs 2012-13 and 2013-14, DCFS had four contracts with Hillside and paid Hillside approximately \$5.1 and \$5.4 million on a fee-for-service basis, respectively (see Attachment II). The Agency provides services in the First and Fifth Supervisorial Districts.

**Results of Review**

Hillside maintained adequate controls over their cash and fixed assets, and prepared their Cost Allocation Plan in compliance with their County contracts. However, Hillside inappropriately allocated a shared staff's payroll to one program when the staff worked

on multiple programs, and allocated their indirect and shared costs based on direct payroll expenditures charged at pre-determined rates, not actual hours worked.

*Hillsides' attached response indicates that they re-allocated their shared and administrative payroll indirect costs using actual hours worked by program.*

In addition, Hillsides inappropriately charged \$79,504 to the DCFS Programs. Specifically, for the expenditures reviewed, Hillsides:

- Overcharged \$36,336 to the Wraparound Program and \$38,116 to the FP Program for indirect costs exceeding the maximum amount allowed.

*Hillsides' attached response indicates that they reduced their Wraparound and FP Cost Reports by \$36,336 and \$38,116, respectively.*

- Charged \$2,704 to the FP Program for legal fees and contracting proposal costs unrelated to the FP Program.

*Hillsides' attached response indicates that they reduced their Cost Report for the FP Program by \$2,704.*

- Charged \$2,348 to the DCFS Programs for fundraising related costs.

*Hillsides' attached response indicates that they repaid DCFS \$1,811 and reduced their Wraparound and FP Cost Reports by \$537.*

- Did not reconcile FY 2012-13 DCFS (FP, RBS, and GH) Cost Reports with their financial records.

*Hillsides' attached response indicates that they have reconciled their revised DCFS (FP, RBS, and GH) Cost Reports to their accounting records.*

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

### **Review of Report**

We discussed our report with Hillsides and DCFS. Hillsides' attached response (Attachment III) indicates that they agree with our findings and recommendations. DCFS management will work with Hillsides to ensure our recommendations are implemented.

We thank Hillside's management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:PH:DC:EB:sk

Attachments

- c: Sachi A. Hamai, Chief Executive Officer
- Philip L. Browning, Director, Department of Children and Family Services
- Brent M. Mason, Board Chair, Hillside's
- Joseph M. Costa, Chief Executive Officer, Hillside's
- Public Information Office
- Audit Committee

**HILLSIDES  
DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROGRAMS  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2012-13 AND 2013-14**

**CASH/REVENUE**

**Objective**

Determine whether Hillside (Hillside or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed Hillside personnel, and reviewed their financial records and March 2014 bank reconciliation for one bank account.

**Results**

Hillside properly recorded revenue in their financial records, deposited their Department of Children and Family Services (DCFS) cash receipts timely, and the bank reconciliation was reviewed and approved by Agency management timely.

**Recommendation**

None.

**COST ALLOCATION PLAN/EXPENDITURES**

**Objective**

Determine whether Hillside's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to the DCFS Programs were allowable, properly documented, and accurately billed.

**Verification**

We reviewed the Agency's Plan and their financial records for 80 (43 DCFS and 37 shared) non-payroll expenditures, totaling \$228,125 (\$130,788 DCFS and \$97,337 shared), charged to the DCFS Programs (Wraparound Approach Services (Wraparound), Family Preservation (FP), Residential Based Services (RBS), and Group Home (GH) services) from July 2012 through May 2014. We also interviewed Agency personnel.

## **Results**

Hillsides prepared their Plan in compliance with their County contracts. However, Hillsides inappropriately allocated their indirect and shared costs based on direct payroll expenditures charged at pre-determined rates, not actual hours worked. The Office of Management and Budget Circular A-122 (OMB Circular A-122) Attachment A, Section A.4 and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section C.2.0, requires agencies to allocate shared and indirect costs equitably in accordance with the relative benefits received.

In addition, Hillsides overcharged the Wraparound and FP Programs a total of \$74,452 by billing DCFS for expenditures that exceeded the maximum amount allowed per their contracts. Hillsides also charged DCFS for unallowable non-payroll expenditures, such as legal fees and fundraising costs, totaling \$5,052 of the expenditures reviewed. The unallowable and overcharged expenditures by Program are as follows:

Program	Overcharged	Unallowable	Totals
Wraparound	\$36,336	\$312	\$36,648
RBS	-	\$610	\$610
GH	-	\$1,201	\$1,201
FP	\$38,116	\$2,929	\$41,045
<b>TOTALS</b>	<b>\$74,452</b>	<b>\$5,052</b>	<b>\$79,504</b>

After our review, Hillsides provided revised allocation worksheets which are based on actual direct payroll costs and facility usage costs. However, Hillsides still needs to update their accounting records and Cost Reports to reflect their revised allocations.

## **Recommendations**

### **Hillsides management:**

- 1. Revise Fiscal Years 2012-13 and 2013-14 accounting records to reflect the revised shared and indirect costs allocated to the County Programs based on the revised allocations, reduce the Cost Reports by over allocated amounts, and repay the Department of Children and Family Services any excess amounts received.**
- 2. Reduce the Fiscal Year 2012-13 Wraparound Approach Services Program expenditures by \$36,648 (\$36,336 + \$312), and repay the Department of Children and Family Services any excess amounts received.**

3. Repay the Department of Children and Family Services \$610 for the unsupported and/or unallowable costs charged to the Residential Based Services Program.
4. Repay the Department of Children and Family Services \$1,201 for the unsupported and/or unallowable costs charged to the Group Home Program.
5. Reduce the Fiscal Years 2012-13 Family Preservation Program Cost Report by \$41,045 (\$38,116 + \$2,929), and repay the Department of Children and Family Services any excess amounts received.
6. Ensure that the County Program expenditures are allowable and supported with adequate documentation.
7. Ensure that indirect and shared costs allocated to the County Programs are allocated based on allowable and equitable basis and supported with adequate documentation.
8. Ensure that indirect costs charged to the Wraparound Approach Services and Family Preservation Programs do not exceed the indirect cost maximum rates specified in the contracts.

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether Hillsides' fixed assets and equipment purchased with DCFS funds were used for the appropriate Programs and adequately safeguarded.

#### **Verification**

We interviewed Hillsides personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of five laptops and four vehicles purchased with DCFS funds to verify the items exist and were being used for the DCFS Programs.

#### **Results**

Hillsides adequately safeguarded and used the items reviewed for the DCFS Programs.

#### **Recommendation**

None.

## **PAYROLL AND PERSONNEL**

### **Objective**

Determine whether Hillsides maintained personnel files as required and if payroll expenditures charged to the DCFS Programs were allowable, properly documented, and appropriately allocated as required by the OMB Circular A-122, the A-C Handbook, and their County contracts.

### **Verification**

We compared the payroll costs for 26 (six direct, ten shared, and ten administrative) employees, totaling \$128,205 (\$15,709 direct, \$66,091 shared, and \$46,405 administrative) for December 2013 and May 2014, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for the 26 employees.

### **Results**

Hillsides maintained their personnel files as required. However, the Agency allocated payroll and employee benefit costs for ten shared and ten administrative employees reviewed based on pre-determined rates, not based on actual conditions. The OMB Circular A-122 Attachment A, Section D.3, requires that actual conditions should be taken into account when selecting the allocation basis.

In addition, Hillsides charged the Wraparound Program for 100% of a shared staff's payroll expenditures who worked on multiple programs. The OMB Circular A-122 Attachment A, Section A.4 and A-C Handbook Section C.2.0, requires agencies to allocate shared costs equitably in accordance with the relative benefits received.

After our review, Hillsides provided documentation showing actual payroll costs and a worksheet showing the adjusted payroll expenditures for Fiscal Years (FY) 2012-13 and 2013-14, and submitted to DCFS their revised Cost Reports for FYs 2012-13 and 2013-14. However, Hillsides has not updated their accounting records to reflect the revised payroll costs.

### **Recommendations**

#### **Hillsides management:**

- 9. Revise Fiscal Years 2012-13 and 2013-14 accounting records and the Department of Children and Family Services Cost Reports based on the revised allocations, and repay the Department of Children and Family Services any excess amounts received.**

10. Ensure that shared employees' payroll expenditures are supported by timecards reporting actual hours worked each day by program.

### **COST REPORTS**

#### **Objective**

Determine whether Hillsides' FY 2012-13 DCFS (FP, GH, and RBS) Cost Reports reconciled to their financial records.

#### **Verification**

We compared the Agency's FY 2012-13 DCFS Cost Reports to their financial records.

#### **Results**

Hillsides' FY 2012-13 DCFS (FP, GH, and RBS) Cost Reports did not reconcile to their financial records. Specifically, Hillsides was not able to provide accounting records to support the following amounts reported in their Cost Reports:

<b>Program</b>	<b>Variance</b>
RBS	\$ 549,387
GH	\$ 3,291,087
FP	\$ 1,144,509

In addition, Hillsides did not include other grant revenue and RBS Community revenue in their RBS Semi-Annual Expenditure and State Cost Report, as required.

#### **Recommendations**

##### **Hillsides management:**

11. Provide documentation to support the Fiscal Year 2012-13 Group Home, Residential Based Services, and Family Preservation Program Cost Reports, and reduce the Cost Reports by unsupported amounts, and repay the Department of Children and Family Services any excess amounts received.
12. Ensure that all revenues are reported on the Residential Based Services Semi-Annual Expenditure and State Cost Report, as required.

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES  
CONTRACTS REVIEWED  
HILLSIDES  
FISCAL YEARS 2012-13 AND 2013-14**

Program	Supervisory District(s)	Payment Amounts by Fiscal Year		Contract Type
		2012-13	2013-14	
Wraparound Approach Services	Fifth	\$ 774,375	\$ 834,765	Fee-for-Service
Family Preservation	First	\$ 965,662	\$ 432,411	Fee-for-Service
Residential Based Services	Fifth	\$ 2,064,495	\$ 1,971,902	Fee-for-Service
Group Home	Fifth	\$ 1,278,490	\$ 2,167,387	Fee-for-Service
<b>Total</b>		<b>\$ 5,083,022</b>	<b>\$ 5,406,465</b>	<b>\$ 10,489,487</b>



CREATING LASTING CHANGE

815 Colorado Blvd., Suite 300  
Los Angeles, CA 90041

T 323.543.2800  
F 323.978.1636

[hillsides.org](http://hillsides.org)

October 6, 2015

Joseph M. Costa  
Chief Executive Officer  
Nancy E. Garri  
Chief Advancement Officer  
Ryan J. Herren  
Chief Financial Officer  
Stacey R. Roth, LCSW  
Chief Program Officer

**BOARD OF DIRECTORS**

Brent M. Mason  
Chair  
Katherine Newhall Yundt  
First Vice Chair  
Mary Dee Hacker  
Second Vice Chair  
Stephen M. Gleason  
Treasurer  
Lyn Specior  
Secretary

Deborah L.S. Booth  
Jennifer Brian  
The Rt. Rev. J. Jon Bruno  
Donald Clark  
William K. Covey, Jr.  
Tony Danz  
Holly Davis  
Jarita D. Davis  
Gary W. Drake  
Donna B. Ford  
John S. Gong  
Gina Guerra  
Catalina Heaga  
LeeAnn Havner  
Ronald G. Hillary, MSW  
The Rev. Norman Hull  
Kelly M. Johnson  
James J. Keatley  
Judy Kenyon  
Nurit M. Kotick  
Phaedra A. Ledbetter  
Hank J. Maarse  
Stephen A. McDonald  
David Nichols  
Steve Nishibayashi, M.D.  
Susan Noce  
Susan Pinsky  
Barbara M. Soheper  
Elizabeth M. Short, M.D.  
The Rev. Edward Snielcinski  
Stephen M. Todd  
Adam J. Walker  
Jeffrey C. Welch

**HONORARY ADVISORS**

Bill Bogaard  
Mary Bruno  
David Hyde Pierce  
Drew Pinsky, M.D.  
Sherm and Marge Telleen  
Frank Ull  
Colleen Williams

**Response to Department of Children and Family Services Contract  
Compliance Review Fiscal Years 2012-13 and 2013-14**

Dear DCFS, Board of Supervisors, and LA County A-C:

Hillsides would like to thank you for providing recommendations that will help us strengthen our internal controls and safeguard public funds. We value and appreciate our partnerships with the various county entities like the Department of Children and Family Services that support Hillsides in our vision of Creating Lasting Change in the lives of the thousands of children, youth, adults, and families we serve annually.

**Cost Allocation Plan/Expenditures**

**A-C Recommendation:**

Hillsides management:

1. Revise Fiscal Years 2012-13 and 2013-14 accounting records to reflect the revised shared and indirect costs allocated to the County Programs based on the revised allocations, reduce the Cost Reports by over allocated amounts, and repay the Department of Children and Family Services by excess amounts received.
2. Reduce the Fiscal Year 2012-13 Wraparound Approach Services Program expenditures by \$36,648, and repay the Department of Children and Family Services any excess amounts received.
3. Repay the Department of Children and Family Services \$610 for the unsupported and/or unallowable costs charged to the Residentially Based Services Program.
4. Repay the Department of Children and Family Services \$1,201 for the unsupported and/or unallowable costs charged to the Group Home Program.
5. Reduce the Fiscal Year 2012-13 Family Preservation Program



Cost Report by \$41,045, and repay the Department of Children and Family Services any excess amounts received.

6. Ensure that the County Program expenditures are allowable and supported with adequate documentation.
7. Ensure that indirect and shared costs allocated to the County Programs are allocated based on allowable and equitable basis and supported with adequate documentation.
8. Ensure that indirect costs charged to the Wraparound and Family Preservation programs do not exceed the indirect cost maximum rates specified in the contract.

Hillsides Response:

1. After the contract compliance review Hillsides has revised its Fiscal Years 2012-13 and 2013-14 accounting records to reflect the revised shared and indirect cost amounts allocated to all programs. We have repaid the Department of Children and Family Services all the questioned costs.
2. Hillsides has reduced its Fiscal Years 2012-13 and 2013-14 Wraparound Approach Services Program expenditures and has revised its annual reports to the Department of Children and Family Services. We did not receive any excess amount for the Fiscal Years.
3. Hillsides has repaid the Department of Children and Family Services for the unsupported and/or unallowable costs charged to the Residentially Based Services Program.
4. Hillsides has repaid the Department of Children and Family Services for the unsupported and/or unallowable costs charged to the Group Home Program.
5. Hillsides has reduced its Fiscal Years 2012-13 and 2013-14 Family Preservation Program expenditures and has revised its annual reports to the Department of Children and Family Services. We did not receive any excess amount for the Fiscal Years.
6. Financial services staff have been diligently reviewing each invoice to ensure they are allowable and supported with adequate supporting documentation.
7. Hillsides will ensure that the indirect and shared costs allocated to the County Programs are allocated based on allowable and equitable basis and supported with adequate documentation.
8. Hillsides will ensure that indirect costs charged to the Wraparound program do not exceed the indirect cost maximum rate specified in the contract. As of July 1, 2014, Hillsides does not have the Family Preservation program.

**Payroll and Personnel**

**A-C Recommendation:**

9. Revise their Fiscal Years 2012-13 and 2013-14 accounting records and the Department of Children and Family Services Cost Reports based on the revised allocations, and repay the Department of Children and Family Services any excess amounts received.
10. Ensure that shared employees' payroll expenditures are supported by timecards reporting actual hours worked each day by program.

**Hillsides Response:**

9. Hillsides has revised its Fiscal Years 2012-13 and 2013-14 accounting records and the Department of Children and Family Services Cost Reports based on the revised allocations. Hillsides did not receive any excess amounts for the Fiscal Years.
10. After the contract compliance review Hillsides has been using an electronic time tracking system to record and support each employee's time by day and by program.

**Cost Reports**

**A-C Recommendation:**

11. Provide documentation to support the Fiscal Year 2012-13 Group Home, Residentially Based Services, and Family Preservation Program Cost Reports, and reduce the Cost Reports by unsupported amounts, and repay the Department of Children and Family Services any excess amounts received.
12. Ensure that all revenues are reported on the Residentially Based Services State Cost Report (SR3), as required.

**Hillsides Response:**

11. Hillsides has reconciled its Fiscal Years 2012-13 and 2013-14 Group Home, Residentially Based Services, and Family Preservation Program Cost Reports to its accounting records.

Hillsides has also revised the Cost Reports and re filed with the Department of Children and Family Services. We did not receive any excess amounts for the Fiscal Years.

12. Hillsides will ensure that all revenues are reported on the required Residentially Based Services State Cost Report (SR3).

For compliments, comments, or concerns, please contact me via email:  
[rherren@hillsides.org](mailto:rherren@hillsides.org)

Kind regards,

A handwritten signature in black ink, appearing to read "Ryan Herren", written over a horizontal line.

Ryan Herren

Chief Financial Officer